

# D.A.V PUBLIC SCHOOL, M.C.L, KALINGA AREA

## MARKING SCHEME

### ECONOMICS PRACTICE PAPER - 02

## ANSWERS

1. (c) C-C economy (1)
2. (b) rises (1)
3. (c) Increase in case reserve ratio leads to increase in money supply. (1)
4. (b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A) (1)
5. (b) B-(ii) (1)
6. Real GDP (1)
7. (d) All of these (1)
8. negative (1)
9. (d) Real GDP (1)
10. Non-rivalrous (1)  
Or  
Capital (1)
11. The non-monetary exchanges, which take place in the informal sectors are not included in the calculation of GDP since money is not being used. This results in an underestimation of GDP. Hence, GDP calculated in the standard manner may not give us a clear indication of the productive activity and actual welfare of the country. (3)  
Or  
This is because of two reasons  
(i) Export refers to the purchase of domestically produced goods by the rest of the world. Goods produced within the domestic territory of a country are to be treated as a part of GDP. (1)
- (ii) Export receipts refer to revenue of the firms from the sale of its output. These are not the receipts of factor incomes from abroad which are to be in the form of rent, interest, profit and wages. (1½×2=3)
12. Net Value Added at Factor Cost ( $NVA_{FC}$ ) = Sales + Unsold output produced during the year – Single use producer goods – Depreciation on durable use capital goods – Taxes on production (3)  
 $= 200 + 20 - 50 - 10 - 10 = ₹150$  crore (3)
13. A budget can be used as an instrument to reduce the inequalities in the distribution of income and wealth in the following ways  
(i) Tax rates should be made progressive, i.e., rate of tax should increase with increase in income.  
(ii) Strict measures should be adopted to check tax evasion by the rich people.  
(iii) Subsidies should be provided wherever needed.  
(iv) Loans should be provided at suitable rates. (1×4=4)
14. In such a situation, the following changes will occur  
(i) Stocks of the producers would be in excess of the desired limit.  
(ii) Profits will start shrinking.  
(iii) Desired level of output for the subsequent year will face a cut.  
(iv) Levels of income and employment will tend to shrink to the point where  $S = I$ , corresponding to point E in the diagram.  
Thus, the economy will come back to the state of equilibrium. (1×4=4)

Or

The excess of Aggregate Demand above the level required to maintain equilibrium in full employment situation in an economy, is termed as inflationary gap. Inflationary gap causes inflation and increases price levels in an economy.

When there is involuntary unemployment in the economy, there is a short fall in Aggregate Demand from the level required to maintain a full employment equilibrium.

This short fall is termed as deflationary gap. Such gap causes reduction in prices in the economy. (4)

15. Advantages of commercial banks are as follows

(i) Commercial banks facilitate savings and capital formation by accepting deposits from the households and firms.

(ii) They offer loans to the households for consumption purposes and to the firms for investment purpose.

This raises the level of Aggregate Demand in the economy which is very important during depression.

(iii) Commercial banks offer overdraft facilities to the firms. This helps the firms in fulfilling their emergent financial requirements.

(iv) They create credit and accordingly contribute to the flow of money in the economy. (1 x 4 = 4)

16. (i) Fixed exchange rate refers to the rate of exchange which is fixed by the central authority of the country. It is not affected by change in demand or supply of foreign exchange. (1)

Flexible exchange refers to the rate of exchange which is determined by the demand and supply of foreign exchange in the foreign exchange market, with no interventions from any central authority. (1)

(ii) Differences between current and capital account of Balance of Payments (BoP)

Basis	Current account of BoP	Capital account of BoP
Nature of transaction	These are the transactions which do not affect the assets or liabilities position of the country.	These are the transactions which affect assets or liabilities position of the country.
Concept	It is a flow concept.	It is a stock concept.

Basis	Current account of BoP	Capital account of BoP
Formula/ Components	Current Account = Exports and Imports of Visible and Invisible Items + Unilateral Transactions + Income Received and Paid to Abroad	Capital Account = Borrowings and Lending from and to Abroad + Investment to and from Abroad + Change in the Reserve of Foreign Exchange
Items Included	It includes transactions of revenue nature.	It includes transactions of capital nature.

(1 x 4 = 4)

17. Given,

$$\text{Autonomous Consumption } (\bar{C}) = ₹ 5,000$$

$$\text{Marginal Propensity to Save (MPS)} = 0.2$$

$$\text{Investment (I)} = ₹ 20,000$$

We know that,

$$\text{MPC} = 1 - \text{MPS} = 1 - 0.2 = 0.8$$

Also, Consumption Expenditure

$$(C) = \bar{C} + (\text{MPC}) Y$$

and at equilibrium level,  $Y = C + I$

$$\therefore Y = \bar{C} + (\text{MPC}) Y + I$$

$$Y = 5,000 + 0.8Y + 20,000$$

$$Y = 25,000 + 0.8Y$$

$$Y - 0.8Y = 25,000$$

$$0.2Y = 25,000$$

$$\therefore Y = ₹ 1,25,000$$

$$\text{Also, Investment Multiplier} = \frac{1}{\text{MPS}} = \frac{1}{0.2} = 5 \quad (6)$$

Or

(i) **Bank Rate Policy** The rate at which the Central Bank lends money to the commercial banks, is termed as bank rate and the policy to bring equilibrium in the economy by changing bank rate is bank rate policy.

To reduce credit, the Central Bank increases the bank rate which also increases the market rate of interest.

It discourages the borrowers to borrow loans and reduces the credit creation power of commercial banks.



On the other hand, to increase the supply of credit, the Central Bank reduces the bank rate. In this way, the Central Bank uses bank rate policy as a method of credit control. (3)

- (ii) **Open Market Operations** The sale or purchase of government securities by the Central Bank in open market is termed as open market operations.

To reduce credit, the government securities are sold by the Central Bank. It reduces the supply of money in the hands of commercial banks and common public.

On the other hand, to increase the credit, the Central Bank purchases the securities from public which releases money in the market.

In this way, the Central Bank uses open market operations as a method of credit control. (3)

18. (d) All of these (1)  
19. (a) 10% (1)  
20. (c) Special economic zones were made to attract foreign trade in China. (1)  
21. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A) (1)  
22. (c) C-(iii) (1)  
23. (d) Both (a) and (c) (1)  
24. Relative (1)  
25. (d) All of these (1)  
26. (c) (i), (ii) and (iii) (1)  
27. 17 (1)

Or

NABARD (1)

28. Affluence means economic well-being. Trap is something in which we get caught and we cannot escape out of it.

Affluence trap means environmental degradation trap. With affluence or economic well-being, more natural resources are used up causing environmental problems.

In rich countries, high level of consumption associated with high level of income is using up natural resources at a fast pace.

As a consequence, these countries are getting trapped in a situation of severe environmental degradation. (3)

Or It refers to the development strategy to meet the needs of the present generation without compromising on the needs to the future generation.

Sustainable development aims at decreasing the absolute poverty of the poor by providing lasting and secure livelihoods that minimise resource depletion, environmental degradation, cultural disruption and social instability. (3)

29. Pakistan has achieved better results with regard to (any three)

- (i) Migration of workforce from agriculture to industry.
- (ii) Migration of people from rural to urban areas.
- (iii) Access to improved water sources.
- (iv) Number of people below poverty line. (1×3=3)

30. The condition of agricultural sector at the time of Independence can be understood with the help of the following points

- (i) **Low Level of Productivity** The productivity levels were very low, at about 660 kg per hectare for wheat and 665 kg per hectare for rice.
- (ii) **High Degree of Vulnerability** Agriculture was greatly affected by erratic rainfall.
- (iii) **Rift and Turmoil between Owners and Tillers** The owners charged high rent from the tillers and demanded rent even when the crops failed. This demotivated the tillers, and agricultural productivity was negatively affected.
- (iv) **Uneconomic and Fragmented Landholdings** The size of the landholdings was uneconomic and also the landholdings were scattered. This further affected the productivity of land adversely. (1×4=4)

Or The main objectives of liberalisation policy are (any four).

- (i) To increase competition among domestic industries.
- (ii) To increase foreign capital formation and improve the technology.
- (iii) To decrease the debt of the country.
- (iv) To encourage cross border trade.
- (v) To expand the size of the market.

Since the NEP aims to achieve all the above stated objectives, therefore it is said, that, NEP is liberal. (1×4=4)

31. **Impact on Productivity** Infrastructure plays a major role in the raising the productivity of primary, secondary and tertiary sector.

Productivity of primary sector has increased due to the provision of better irrigation facilities. Productivity of secondary sector has increased because of development in energy sector and tertiary sector has benefitted by changes in transportation and communication sector.

**Induces Investment** A well-developed infrastructure attracts foreign investors. Thus, infrastructure induces investment and increases profitability. (2×2=4)

32. Poor people do not have enough resources for economic purpose. For example, a poor farmer cannot use the good variety of seeds and equipments.

Due to poverty, they are not in a position to maintain efficiency and productivity. Poverty encourages farmers to mortgage their land to money lenders which in long-run, increases unemployment.

Also, it is not possible for poor men to have proper education to improve their mental ability.

Therefore, poor people are not able to get jobs and are unemployed. (4)

33. Following points highlight the importance of industry in an economy

(i) **Structural Transformation** Industrial development brings about structural transformation in the economy.

It means that dependence of our economy on agriculture will be reduced.

(ii) **Source of Employment** Indian economy has a very large skilled workforce which is still unemployed.

It is the establishment of industries only, which can generate employment opportunities on a large scale.

(iii) **Enhancing further the Economic Growth** As industrialisation progresses, the capital goods industry also starts to flourish.

This helps in further economic growth and also helps an economy to attain self-sustaining development.

(iv) **Infrastructural Growth** With the spread of industrialisation, the need for economic infrastructure such as roads, dams, banking, insurance and communication facilities also rises and this leads to their growth.

Also, with the improvement in quality of life, the demand for social infrastructure i.e., facilities related to health and education, also rise and leads to their development. ( $1\frac{1}{2} \times 4 = 6$ )

34. To achieve the objective of rural development, following measures related to finance can be taken

(i) The supply of finance should be fully institutionalised and dependence on private sources for credit should be eliminated.

(ii) The general interest rate should be low. The banks should charge different rates for different uses.

(iii) The basis of credit should not be mortgage of any security. Production or productivity of land should be the basis for the approval of loans.

(iv) The conditions of repayment of loans should be different so as to suit different circumstances.

(v) It should be ensured that finance is used for production. Loans can also be given in the form of goods like seeds, fertilisers, etc.

(vi) There should be adequately trained and devoted personnel to manage the financial institutions.

The persons should have full knowledge of agriculture and interest of farmers. ( $1 \times 6 = 6$ )

Or

(i) Economic reforms offered the opportunities to multinational companies to expand their functions all around the country. Many multinational companies are entering in the rural marketing. (1)

They are doing well for the sake of farmers as stated below

(a) They are making contracts with farmers.

(b) They are motivating farmers to grow desirable food, fruits and vegetables of the desired quality.

(c) They are providing them seeds and other inputs.

(d) They are offering them pre-decided prices. ( $\frac{1}{2} \times 4 = 2$ )

(ii) The negative environmental impact has high opportunity costs as explained below

(a) The industrial development in past has polluted and dried up rivers and other aquifers making water an economic good.

Also, cleaning up of polluted rivers and replenishing water resources require huge investments.

(b) The intensive and extensive extraction of both renewable and non-renewable resources has exhausted some of these resources.

Huge amount of funds need to be spent on technology and research to explore new resources.

(c) The health costs of degraded environmental quality are also rising as decline in air and water quality has resulted in increased incidence of respiratory and water-borne diseases.

Thus, it is clear that the opportunity costs of negative environmental impacts are high. ( $1 \times 3 = 3$ )